

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AGRE-00 SP-02 ICA-11 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 L-03 H-01 ITC-01 /096 W
-----105489 131053Z /12

R 130912Z SEP 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC 1176

C O N F I D E N T I A L SECTION 01 OF 03 TOKYO 16534

E.O. 11652: GDS
TAGS: EFIN, ETRD, JA
SUBJECT: US-JAPAN SUBCABINET MEETING

REF: STATE 221450

1. SUMMARY: ECONOMIC SUB-CABINET MEETING WITH JAPAN CONVENES IN AN ATMOSPHERE OF CONTINUED TENSION IN FACE OF CONTINUING PROBLEMS WHICH FRUSTRATE THE U.S. AND TO JAPANESE SEEM TO DEFY THEIR BEST EFFORTS AT SOLUTION. DURING THE LAST YEAR, UNDER PRESSURE FROM THE U.S. AND OTHER TRADING PARTNERS, THE JAPANESE HAVE TAKEN MEASURES TO OPEN THEIR MARKETS AND TO REDUCE THEIR CURRENT ACCOUNT SURPLUS. NONETHELESS, THE GOVERNMENT EXPECTS A CURRENT ACCOUNT SURPLUS OF \$13.5 BILLION FOR THE JAPANESE FISCAL YEAR ENDING MARCH 31, 1979. PRIVATE ESTIMATES ARE MUCH HIGHER. THE JAPANESE ARE BEGINNING TO RESTRUCTURE THEIR ECONOMY AWAY FROM INDUSTRIES IN WHICH THEY HAVE LOST COMPARATIVE ADVANTAGE OR IN WHICH THERE IS EXCESS CAPACITY. THE RESTRUCTURING COULD RESULT IN THE PROMOTION OF MORE SOPHISTICATED AND HIGHLY TECHNOLOGICAL EXPORT INDUSTRIES. THE EMBASSY BELIEVES THAT IN THE OCTOBER SUBCABINET MEETING, THE UNITED STATES SHOULD REVIEW THE OUTLOOK FOR THE JAPANESE ECONOMY;
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URGE REDOUBLED EFFORTS TO ELIMINATE TRADE IMPEDIMENTS;
INQUIRE ABOUT JAPAN'S PLANS FOR RESTRUCTURING ITS ECONOMY;
AND ENCOURAGE AND GIVE THE JAPANESE CREDIT FOR HELPFUL ACTIONS IN THE LAST NINE MONTHS. END SUMMARY.

2. THIS ECONOMIC SUBCABINET MEETING WITH JAPAN WILL FACE MANY OF THE SAME ISSUES AS THE MEETING LAST YEAR,

BUT THE PROBLEMS HAVE INTENSIFIED. THE ATMOSPHERE IS ONE OF CONTINUING TENSION AND FRUSTRATION FOR BOTH SIDES. THE JAPANESE HAVE MUCH LESS TO SHOW FOR THEIR EFFORTS THAN WE OR THEY WOULD LIKE. THEY WILL APPROACH THE MEETING WITH THE KNOWLEDGE THAT THEY HAVE NOT SUCCEEDED IN REDUCING THEIR CURRENT ACCOUNT SURPLUS, BUT WITH THE FEELING THAT THEY HAVE GOTTEN LITTLE CREDIT FOR WHAT THEY HAVE DONE.

3. IN PART MOTIVATED BY THE PLEDGES IN THE JANUARY STRAUSS-USHIBA AGREEMENT AND THE BONN SUMMIT, THE JAPANESE GOVERNMENT IN RECENT MONTHS HAS STARTED ADDITIONAL MEASURES TO INCREASE THE RATE OF GNP GROWTH AND HAS LIBERALIZED ACCESS TO ITS MARKET SOMEWHAT. JAPANESE OFFICIALS ARE CONFIDENT THAT JAPAN WILL ENJOY A 7 PERCENT GNP GROWTH RATE IN 1978. IN THE FIRST QUARTER INTERNAL DEMAND INCREASED BY 8 PERCENT; IN THE SECOND QUARTER IT ROSE AT A RATE OF 9.2 PERCENT. OVERALL GNP GROWTH DECLINED IN THE SECOND QUARTER MAINLY BECAUSE OF A DROP IN EXTERNAL DEMAND. ON SEPTEMBER 2, THE GOVERNMENT MADE PUBLIC A 2.5 TRILLION YEN PROGRAM DESIGNED TO STIMULATE FURTHER DOMESTIC DEMAND. THE DIET WILL CONVENE SEPTEMBER 18 TO CONSIDER A SUPPLEMENTAL BUDGET TO CARRY OUT THIS PROGRAM. SINCE JANUARY THE JAPANESE ALSO:

--HAVE MADE AN ACCEPTABLE OFFER OF TARIFF REDUCTIONS ON
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MANUFACTURED GOODS IN THE MTN;

-- HAVE LIVED UP TO THEIR UNDERTAKING IN THE STRAUSS-USHIBA STATEMENT TO INCREASE CITRUS AND HIGH QUALITY BEEF IMPORTS;

-- HAVE STATED THEIR INTENT TO PURCHASE \$4 BILLION IN EMERGENCY IMPORTS DURING THIS JAPANESE FISCAL YEAR;

-- HAVE COOPERATED IN THE RESOLUTION OF TEN CASES IN THE TRADE FACILITATION COMMITTEE;

-- HAVE INDUCED UTILITIES AND HOME FUEL COMPANIES TO PASS THROUGH TO CONSUMERS SOME OF THE BENEFITS OF THE YEN APPRECIATION AND HAVE SAID THEY WILL CONTINUE SURVEILLANCE OF OTHER FIRMS' PASSTHROUGHS ON CONSUMER GOODS.

4. NONETHELESS, THE JAPANESE GOVERNMENT PROJECTS A CURRENT ACCOUNT SURPLUS OF \$13.5 BILLION IN JAPANESE FISCAL YEAR 1978, DOWN SLIGHTLY FROM \$14 BILLION IN 1977. IN THE APRIL-JUNE QUARTER THE SURPLUS WAS \$5.1 BILLION,

DOWN FROM \$5.5 BILLION IN THE PREVIOUS QUARTER. THE SURPLUS WAS \$1.4 BILLION IN JULY AND PROBABLY SOMEWHAT LESS IN AUGUST. IN VOLUME TERMS JAPANESE TRADE HAS ALREADY MOVED TOWARD BALANCE. EXPORT VOLUME SEEMS TO HAVE PEAKED IN FEBRUARY AND IMPORT VOLUME IS RISING, AS IS THE RATIO OF MANUFACTURED IMPORTS TO TOTAL IMPORTS.

5. PRIME MINISTER FUKUDA AT THE BONN SUMMIT RECONFIRMED HIS STATEMENT THAT JAPAN MUST REDUCE THE CURRENT ACCOUNT

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FM AMEMBASSY TOKYO

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SURPLUS. HOWEVER, BIASES IN FAVOR OF EXPORTS AND AGAINST IMPORTS PERSIST IN THE JAPANESE ECONOMY. IN THE "1978 EDITION OF THE LONG TERM VISION FOR THE INDUSTRIAL STRUCTURE," PUBLISHED AT THE END OF JULY, THE GOVERNMENT LISTS A NUMBER OF INDUSTRIES WHOSE CAPACITY SHOULD BE REDUCED AND A NUMBER OF OTHERS, INCLUDING AUTOMOBILES, AIRCRAFT AND COMPUTERS, WHICH MUST BE MODERNIZED. THE SEPTEMBER 2 PAPER ON COMPOSITE ECONOMIC MEASURES DESCRIBES PROGRAMS TO REDUCE CAPACITY IN CERTAIN INDUSTRIES LIKE SHIPBUILDING AND TO HELP FIRMS AFFECTED BY THE YEN APPRECIATION. MITI POLICY AND PLANNING DOCUMENTS SUCH AS THE JUNE WHITE PAPER ON TRADE CONSISTENTLY ASSERT THE NECESSITY TO RESTRUCTURE TRADE IN THE DIRECTION OF BALANCE. THE GOJ, HOWEVER, HAS DONE LITTLE SO FAR TO CORRECT JAPAN'S IMAGE AS INWARD LOOKING AND UNWILLING TO ACCEPT MANUFACTURED IMPORTS.

6. IT WILL BE NECESSARY FOR THE GOVERNMENT TO FACILITATE THE WITHDRAWAL OF FIRMS FROM INDUSTRIES IN WHICH THERE

IS EXCESS CAPACITY OR IN WHICH JAPAN HAS LOST COMPARATIVE ADVANTAGE. HOWEVER, SOME ELEMENTS OF THE GOVERNMENT'S PROGRAM, SOMETIMES DESCRIBED AS "HIGH YEN COUNTERMEASURES," SEEM DESIGNED TO THWART THE EFFECT OF THE YEN'S
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APPRECIATION AND DO NOT FALL INTO THE CATEGORY OF POSITIVE ADJUSTMENT AS THAT CONCEPT HAS BEEN ENUNCIATED IN THE OECD. IT IS NOT CLEAR WHAT HELP THE GOVERNMENT INTENDS TO GIVE TO HIGH TECHNOLOGY FIRMS WHICH WANT TO IMPROVE THEIR TECHNOLOGICAL EDGE, BUT MUCH CONSIDERATION IS BEING GIVEN TO THE POSSIBILITY. GOVERNMENT ASSISTANCE TO THOSE FIRMS COULD RESULT IN AN INCREASE IN MORE TECHNOLOGICALLY ADVANCED EXPORTS. WE SHOULD TRY TO LEARN MORE ABOUT THESE POLICIES.

7. THERE REMAIN IMPEDIMENTS TO IMPORTS IN THE JAPANESE ECONOMY. STRICT STANDARDS AND PROCEDURES AND ENTRENCHED BUSINESS PRACTICES DISCOURAGE IMPORTS. THERE ARE FORMAL AND INFORMAL CARTELS WHICH LIMIT BUYING OF FOREIGN PRODUCTS, OFTEN CLAIMING THAT MITI ADMINISTRATIVE GUIDANCE PROHIBITS PURCHASES OF CERTAIN FOREIGN GOODS. THE TRADE FACILITATION COMMITTEE HAS BEEN USEFUL IN ADDRESSING THESE IMPEDIMENTS AND RESOLVED TEN OF THE 16 CASES IT HAS RECEIVED. THERE ARE A NUMBER OF DIFFICULT PENDING CASES IN TOKYO AND WASHINGTON, AND OTHER CASES CERTAINLY WILL BE RECEIVED. THE JAPANESE OUGHT TO COOPERATE IN THE RESOLUTION OF THE CASES.

8. CONCLUSION: WE BELIEVE THE JAPANESE ARE CONVINCED THAT THEY MUST REDUCE THEIR CURRENT ACCOUNT SURPLUS. HOWEVER, IT WILL TAKE CONTINUED U.S. PRESSURE ON THEM TO INSURE THEY TAKE THE STEPS NECESSARY. ULTIMATELY, THE EMPHASIS ON EXPORTS IN THE JAPANESE ECONOMY MUST BE WEAKENED. THIS SORT OF RESTRUCTURING WILL BE A LONG PROCESS, BUT ONE WHICH WE SHOULD ENCOURAGE NOW. IN THE FORTHCOMING SUBCABINET TALKS, THE UNITED STATES SHOULD:

-- ASK THE JAPANESE TO PRESENT THEIR FRANK ESTIMATES
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OF THE CURRENT BALANCES FOR 1978 AND 1979 AND EXPRESS STRONG CONTINUED INTEREST IN THE REDUCTION OF THE SURPLUS.

-- REQUEST THE JAPANESE TO DESCRIBE THEIR PLANS FOR

STRUCTURAL ADJUSTMENT OF THEIR ECONOMY, PREDICT THEIR
IMPACT ON FOREIGN TRADE, AND, AS APPROPRIATE, NOTE
THAT GOVERNMENTAL ASSISTANCE TO IMPROVE THE COMPETITIVE-
NESS OF EXPORT INDUSTRIES WOULD NOT BE APPROPRIATE. WE
CAN POINT OUT THAT "HIGH YEN COUNTERMEASURES" SEEM
DESIGNED TO THWART IMPROPERLY THE EFFECT OF THE YEN'S
APPRECIATION.

-- RECOGNIZE JAPANESE EFFORTS AND PROGRESS OVER THE LAST
NINE MONTHS TO LIBERALIZE IMPORTS AND TO REDUCE THE
CURRENT ACCOUNT SURPLUS.

-- SUGGEST THAT MORE COULD BE DONE TO CHANGE THE
IMPRESSION OF JAPAN AS A RESTRICTED MARKET FOR IMPORTS.

-- OBSERVE THAT THERE STILL SEEM TO BE MANY IMPEDIMENTS
TO EXPORTS TO JAPAN, INCLUDING INFORMAL CARTELS AND NON-
TARIFF BARRIERS, AND SEEK A RENEWED COMMITMENT BY THE
JAPANESE TO COOPERATE IN THE REMOVAL OF THESE BARRIERS.
THE TRADE FACILITATION COMMITTEE WAS CREATED FOR THIS
PURPOSE AND ITS PERFORMANCE SHOULD BE IMPROVED.

-- REVIEW PROGRESS IN THE MTN AND URGE THE JAPANESE TO
AGREE TO BROAD COVERAGE OF INDEPENDENT GOVERNMENT
AGENCIES UNDER THE GOVERNMENT PROCUREMENT CODE AND TO
SUPPORT FULLY OTHER MTN AGREEMENTS ON NON-TARIFF BARRIERS.

9. IT MAY BE USEFUL TO ARRANGE MEETINGS BETWEEN THE
JAPANESE DELEGATION AND CONGRESSMEN AND SENATORS CONCERNED
WITH TRADE. THIS WOULD REMIND THE JAPANESE OF

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PROTECTIONIST PRESSURES IN THE UNITED STATES.

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